



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
The Metropolitan Water District of Southern California:

We have audited the accompanying basic financial statements of The Metropolitan Water District of Southern California (Metropolitan) as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of Metropolitan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Metropolitan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Metropolitan Water District of Southern California, as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2009 on our consideration of Metropolitan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information in the management's discussion and analysis on pages 3 through 13 and the pension and other postemployment benefits supplementary information on page 71 are not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Metropolitan's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

October 16, 2009

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REVISION
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May 10, 2010

State Controller's Office
Division of Audits
Attention: Casandra Moore-Hudnall
P. O. Box 942850
Sacramento, CA 94250-5874

Re: Rejection Letter for 2008-2009 Fiscal Year Metropolitan Water District of Southern California Single Audit Report

Dear Ms. Moore-Hudnall:

We are in receipt of your letter dated April 26, 2010. Your letter noted that the June 30, 2009 Single Audit report for the Metropolitan Water District of Southern California (the District) has been rejected. Following is the cause noted by the Division for the rejection:

"The Independent Auditor's Report did not reference a separate report on internal control over financial report and on tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters (Government Auditing Standard 5.08 and 5.09)."

Paragraphs 5.08 and 5.09 of the Government Code state the following

Auditors should include either in the same or in separate report(s) a description of the scope of the auditors' testing of internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements. If the auditors issue separate reports, they should include a reference to the separate reports in the report on financial statements. Auditors should state in the reports whether the tests they performed provided sufficient, appropriate evidence to support an opinion on the effectiveness of internal control over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements. The internal control reporting standard under GAGAS differs from the objective of an examination of internal control in accordance with the AICPA Statement on Standards for Attestation Engagements (SSAE), which is to express an opinion on the design or the design and operating effectiveness of an entity's internal control, as applicable. To form a basis for expressing such an opinion, the auditor must plan and perform the examination to obtain reasonable assurance about whether the entity maintained, in all material respects, effective internal control as of a point in time or for a specified period of time.

When auditors report separately (including separate reports bound in the same document) on internal control over financial reporting and compliance with laws and regulations and provisions of contracts or grant agreements, they should state



in the financial statement audit report that they are issuing those additional reports. They should include a reference to the separate reports and also state that the reports on internal control over financial reporting and compliance with laws and regulations and provisions of contracts or grant agreements are an integral part of a GAGAS audit and important for assessing the results of the audit. If auditors issued or intend to issue a management letter, they should refer to that management letter in the reports.

It is our understanding that the District submitted the attached report in their submission to your department. Paragraph 4 of the attached Independent Auditor's Report states the following:

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2009 on our consideration of the Metropolitan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The above paragraph addresses the requirement of Government Auditing Standard 5.08 and 5.09. However, please let me know if the Division has any additional questions. I can be reached at 213-955-8671 or via email at ramartinez@kpmg.com.

Very truly yours,

KPMG LLP

Roger A. Martinez
Partner

Enclosures